



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CITY OF MATLOSANA

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the City of Matlosana, which comprise the appropriation statement, statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 91 to 148.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. As reported in the prior year, my opinion on the corresponding figure of R2 380 492 591 for property, plant and equipment was modified. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that the repairs and maintenance cost of an asset be recognised as expenditure. Contrary to this, the municipality capitalised repairs and maintenance costs of R12 773 515 as property, plant and equipment. Consequently, the corresponding figure of property, plant and equipment is overstated by R12 773 515 and the corresponding figure of repairs and maintenance expenses understated by the same amount.
5. SA Standards of GRAP, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors* require that prior year errors identified during the current year be restated retrospectively. Duplicated infrastructure assets with a carrying value of R221 565 011 and municipal properties not previously recognised with a value of R98 398 595 were corrected on the asset register in the current year, but was not retrospectively restated in the financial statements. Consequently, the corresponding figure for property, plant and equipment is overstated by R123 166 416 in the statement of financial position.



6. The municipality could not provide sufficient appropriate audit evidence to substantiate a correction of R48 912 345 made to the prior year opening balance of infrastructure assets of R2 105 276 872. The municipality's records did not permit the application of alternative audit procedures regarding the retrospective adjustment. Consequently, I was unable to verify the accuracy of the retrospective adjustment to infrastructure assets and the accumulated surplus.
7. I was unable to verify the existence and rights of property, plant and equipment of R1 686 818 733 (2010: R2 323 900 341) and rights of motor vehicles of R22 105 800 included in the property, plant and equipment of R2 256 367 451 (2010: R2 380 492 591) disclosed in the statement of financial position. The limitation is due to inadequate descriptions in the asset register to enable me to verify the existence and rights of these assets. Sufficient appropriate audit evidence I considered necessary to verify these balances was not provided. The municipality's records did not permit the application of alternative audit procedures regarding the existence and rights of these assets.
8. I was unable to verify the valuation and allocation and completeness of property, plant and equipment of R2 031 251 754 (2010: R2 284 576 863) included in the property, plant and equipment balance of R2 256 367 451 (2010: R2 380 492 591) disclosed in the statement of financial position. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that each part of an item of property, plant and equipment be recognised separately. The municipality has not yet completed its process to adhere to this requirement in respect of infrastructure assets. Inadequate descriptions in the asset register also contributed to this limitation. Sufficient appropriate audit evidence I considered necessary to verify these balances was not provided. The municipality's records did not permit the application of alternative audit procedures to enable me to verify the valuation and allocation and completeness of these assets.
9. The municipality's valuation method used to value land, included both the value of the land and the value of the buildings on the land, while the value of the buildings were already accounted for separately, resulting in a duplication. Consequently, land and buildings of R252 298 626 included in property, plant and equipment of R2 256 367 451 disclosed in the statement of financial position and the accumulated surplus are overstated by R109 214 505.
10. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that an item that meets the definition of property, plant and equipment be recognised at cost less accumulated depreciation. Contrary to this requirement, the municipality incorrectly expensed all assets with a cost of less than R2 000, totalling R15 426 586 (2010: R15 252 049), in the current year. Furthermore, assets of R22 607 502 acquired during the year were incorrectly expensed as repairs and maintenance. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.
11. The municipality did not annually review the residual values and useful lives of property, plant and equipment as required by SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment*. This is evidenced by assets with a cost of R180 675 443 (2010: R165 060 938) being included in the financial statements at a zero net carrying value while still being in use. I was unable to confirm or verify by alternative means the value of property, plant and equipment of R2 256 367 451 (2010: R2 380 492 591) in the statement of financial position or the depreciation and amortisation expense of R175 297 777 (2010: R170 748 877) disclosed in the statement of financial performance. Consequently, I did not obtain sufficient appropriate audit evidence to confirm the valuation of property, plant and equipment or the accuracy, occurrence and completeness of the depreciation and amortisation expense.
12. The municipality's accounting policy for property, plant and equipment implies the use of the revaluation method to measure property, plant and equipment. When opting to use the revaluation method, the SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* requires that assets be carried at revalued amounts less accumulated depreciation. This requirement was however not adhered to, as the assets included in the infrastructure assets balance of R1 833 564 193 (2010: R2 079 009 201), community assets balance of R68 162 749 (2010: R55 886 945), heritage assets balance of R1 607 084 (2010: R1 485 811) and other property, plant and equipment balance of R100 734 799 (2010: R94 429 917) are



carried at cost less accumulated depreciation and no revaluations were performed to ensure that assets were correctly valued. The municipality's records did not permit the application of alternative audit procedures to determine the impact of the incorrect implementation of the accounting policy on the account balances and classes of transactions. Consequently, I was unable to confirm the valuation of property, plant and equipment of R2 256 367 451 (2010: R2 380 492 591) as per the statement of financial position.

Investment property

13. SA Standards of GRAP, GRAP 16, *Investment Property*, require that property held for capital appreciation to earn rentals or land held for a currently undetermined use, be recognised as investment property. Included in investment properties of R67 144 400 (2010: R67 144 400) in the statement of financial position, are properties of R57 270 973 (2010: R57 270 973) which do not meet the requirement to be recognised as investment properties. These properties do however meet the definition of owner occupied land and buildings, which in accordance with Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment* should have been included in the balance of property, plant and equipment of R2 256 367 451 (2010: R2 380 492 591) in the statement of financial position.
14. Municipal properties of R861 759 867 were not accounted for. The municipality's records did not contain sufficient information to identify these properties as either being investment properties, owner occupied land and buildings or properties in the process of being transferred. Consequently, I was unable to determine the impact of these unaccounted properties on the investment property balance of R67 144 400, the land and buildings balance of R252 298 626 included in the property, plant and equipment balance of R2 256 367 451 or the balance of unsold properties of R647 771 included in the inventories balance of R44 664 689 disclosed in the statement of financial position.
15. In addition to the properties mentioned in the preceding paragraph, further properties with a total value of R50 253 552 were identified on the municipality's valuation roll as being owned by the municipality, but not accounted for in its records. I was unable to obtain sufficient appropriate audit evidence I considered necessary to verify the completeness of these properties. Consequently, I was unable to determine the completeness of the investment property balance of R67 144 400, the land and buildings balance of R252 298 626 included in the property, plant and equipment balance of R2 256 367 451 and the balance of unsold properties of R647 771 included in the inventories balance of R44 664 689 disclosed in the statement of financial position.

Borrowing costs

16. SA Standards of GRAP, GRAP 5, *Borrowing Costs*, requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The municipality does not have an appropriate system to account for borrowing costs and as a result it did not permit the application of alternative audit procedures. Consequently, I was unable to confirm that finance costs of R19 460 557 incurred during the year as per the statement of financial performance was appropriately classified and that property, plant and equipment of R2 256 367 451 disclosed in the statement of financial position is complete.

Trade and other receivables from exchange transactions

17. I was unable to determine whether the municipality used objective evidence to calculate the amount of the provision for impairment of receivables of R46 822 580 (2010: R89 582 181) disclosed in note 8 to the financial statements, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments Recognition and Measurement*. The municipality's records did not permit the application of alternative audit procedures regarding the calculation of the provision for impairment of these receivables. Consequently, I did not obtain all the information and explanations I considered necessary to confirm the correctness of the valuation of the provision for impairment of these receivables.



18. I was unable to agree trade and other receivables from exchange transactions of R17 191 261 (2010: R7 917 800) disclosed in note 8 to the financial statements to substantiating evidence, due to limitations placed on the scope of my work by the municipality. The municipality's records did not permit the application of alternative audit procedures regarding these receivables. Consequently, I was unable to obtain sufficient appropriate audit evidence to verify the existence, rights and obligations, completeness, valuation and allocation of the trade and other receivables from exchange transactions balance.
19. The municipality was unable to provide sufficient appropriate audit evidence to substantiate sundry debtors of R45 570 073 (2010: R102 878 854) disclosed in note 8 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding these sundry debtors. Consequently, I was unable to verify the existence, rights, valuation and allocation of these sundry debtors.

Consumer debtors

20. As reported in the prior year, my opinion on the corresponding figure of R112 121 000 for consumer debtors as per the statement of financial position was modified. Included in consumer debtors of R112 121 000 disclosed in the corresponding figures in note 9 to the financial statements, is a balance of R100 227 630 which relates to consumer debtors that entered into an agreement with the municipality to repay debt over a period without levying any interest on the outstanding amount. This amount was however not valued at amortised cost as required by South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments Recognition and Measurement*, resulting in the corresponding figure for consumer debtors being overstated by R14 800 920 and the deficit for that year being understated by R14 800 920.
21. The municipality was unable to provide sufficient appropriate audit evidence to substantiate consumer debtors of R650 841 929 (2010: R802 078 742) disclosed in note 9 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding these consumer debtors. Consequently, I was unable to verify the existence, rights, valuation and allocation of consumer debtors.
22. I was unable to determine whether the municipality used objective evidence to calculate the amount of the provision for impairment of consumer debtors of R530 221 062 (2010: R689 957 742) disclosed in note 9 to the financial statements, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments Recognition and Measurement*. The municipality's records did not permit the application of alternative audit procedures regarding the calculation of the provision for impairment of debtors. Consequently, I did not obtain all the information and explanations I considered necessary to confirm the correctness of the valuation of the provision for impairment of consumer debtors.
23. The municipality could not provide sufficient appropriate audit evidence to substantiate bad debts written off of R72 745 842 included in consumer debtors written off of R440 489 529 disclosed in note 9 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding these write-offs. Consequently, I was unable to verify the occurrence, accuracy completeness and cut-off of these debts written off.
24. Section 96 of the Municipal Systems Act (MSA) requires municipalities to collect all money due to them in terms of an adopted debt collection policy. The municipality however wrote off consumer debt of R385 488 196 without following the adopted debt collection policy. Consequently, in view of the prescribed policy not being followed, the amount written off is considered still payable to the municipality, resulting in the understatement of R385 488 196 of consumer debtors disclosed in the statement of financial position.

Trade and other payables from exchange transactions

25. The municipality could not provide sufficient appropriate audit evidence to substantiate trade and other payables of R19 822 862 (2010: R19 256 593) included in the balance of R256 644 984 (2010: R104 020 383) disclosed in the statement of financial position. The



municipality's records did not permit the application of alternative audit procedures regarding these trade and other payables. Consequently, I was unable to satisfy myself as to the existence, rights, valuation and allocation of trade and other payables disclosed in the statement of financial position.

26. Unclaimed VAT of R27 882 045 was not recorded in the accounting records of the municipality resulting in the VAT payable of R30 045 576 disclosed in the statement of financial position being overstated by R27 882 045. The latter resulted in the overstatement of additions to property, plant and equipment of R2 131 989 and expenditure of R16 049 954 and the understatement of revenue of R5 368 713 and long term liabilities of R4 331 388.
27. Sufficient appropriate audit evidence could not be provided to substantiate an unexplained difference of R11 418 890 between the municipality's accounting records and the VAT returns. The records of the municipality did not permit the application of alternative audit procedures regarding this difference. Consequently, I was unable to verify the completeness, classification, valuation and obligation of the VAT payable of R30 045 576 disclosed in the statement of financial position.

Unspent conditional grants and receipts

28. As disclosed in note 36 to the financial statements, the corresponding figure for unspent conditional grants is restated by R31 243 744 to address a prior year misstatement. No supporting documentation was available for the restatement and it could not be confirmed whether the balance was restated retrospectively. SA Standards of GRAP, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors* requires errors to be restated retrospectively. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation and allocation of and obligation pertaining to the unspent conditional grant corresponding figure of R17 553 901 disclosed in the statement of financial position.
29. As reported in the prior year, my opinion on the corresponding figure of R17 553 901 for unspent conditional grants was modified. The municipality could still not provide sufficient appropriate audit evidence to support a difference of R12 479 631 between recognised revenue (conditions met) of R80 168 201 and expenditure of R67 688 670 in the statement of financial performance. Consequently, I did not obtain sufficient appropriate audit evidence to confirm the valuation, rights and obligations, existence and completeness of the corresponding figure for unspent conditional grants and receipts of R17 553 901 disclosed in the statement of financial position.

Provisions

30. Provisions of R299 544 623 (2010: R253 631 570) disclosed in the statement of financial position includes the non-current portion of these provisions, which should be disclosed separately. The municipality's records did not permit the application of alternative audit procedures to determine the value of the short term and long term portions respectively. Consequently, a portion of provisions are incorrectly classified as current liabilities and non-current liabilities are understated.

Consumer deposits

31. The municipality could not provide sufficient appropriate audit evidence to substantiate consumer deposits of R 21 506 788 (2010: R14 918 885) disclosed in the statement of financial position. The municipality's records did not permit the application of alternative audit procedures regarding these deposits. Consequently, I was unable to verify the existence, rights, valuation and allocation of consumer deposits disclosed in the statement of financial position.

Revenue

32. As reported in the prior year, my opinion on the corresponding figure of R191 285 747 for revenue generated from rates disclosed in the statement of financial performance was



modified. Consequently, the corresponding figure for revenue, consumer debtors and the net deficit are understated by R53 121 260.

33. As reported in the prior year, my opinion on the corresponding figure of R513 206 881 for revenue generated from service charges disclosed in the statement of financial performance was modified. Revenue from service charges did not include revenue from water and electricity consumed during the period from the last meter reading to 30 June 2010 (R33 855 526) but incorrectly included sales for the similar period relating to the prior year (R22 166 779). SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*, require revenue to be recognised when it accrues to the municipality. The corresponding figure for revenue and consumer debtors are therefore understated by R11 688 748.
34. As reported in the prior year, my opinion on the corresponding figure of R12 561 486 for other revenue disclosed in the statement of financial performance was modified. Revenue from the sale of stands of R38 056 223 was not recognised as revenue in the statement of financial performance as required by the SA Standards of GRAP, GRAP 9, *Revenue from Exchange Transactions*. The corresponding figure for revenue, receivables and the VAT payables are therefore understated by R38 056 223, R43 384 094 and R5 327 871 respectively.
35. The corresponding figures for revenue and other income as per the statement of financial performance has been restated by R114 428 630 and R1 083 983 respectively, to address prior year misstatements. Sufficient appropriate audit evidence for the restatement of R15 345 014 on revenue and R1 083 983 on other revenue could however not be submitted for audit. Consequently, I was unable to verify the completeness, accuracy and classification of the corresponding figure of R1 035 489 671 for revenue and R175 431 182 for other income disclosed in the statement of financial performance.
36. I was unable to obtain sufficient appropriate audit evidence to substantiate revenue of R144 741 554 (2010: R132 336 285) for "Transfer of reserves and funds" included in other income of R213 838 727 (2010: R175 431 182) disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures regarding these revenue transactions. Consequently, I was unable to verify the occurrence, accuracy and classification of other income disclosed in the statement of financial performance.
37. I was unable to obtain sufficient appropriate audit evidence to substantiate revenue of R68 376 758 for rental income, sale of stands and other income included in other income of R213 838 727 in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures regarding these revenue transactions. Consequently, I was unable to verify the occurrence, accuracy and classification of other income disclosed in the statement of financial performance.

Expenditure

38. As reported in the prior year, my opinion on the corresponding figure of R1 315 127 455 for operating expenses disclosed in the statement of financial performance was modified. I was still unable to obtain sufficient appropriate audit evidence for expenditure of R82 691 092 included in the corresponding figure of operating expenses disclosed in the statement of financial performance. Consequently, I could not determine the occurrence, accuracy, classification, cut-off and completeness of the corresponding figure of R1 315 127 455 for operating expenses.
39. A prior year error relating to the overcharging of property rates was incorrectly corrected by writing off the amount as bad debt in the current year. SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*, requires expenses to be recognised when it accrues to the entity. Consequently, expenditure and the net deficit for the current year are both overstated by R53 121 260.
40. Infrastructure assets with a carrying value of R199 603 725 were identified during the current financial year as being double accounted for in the records of the municipality. The municipality corrected this error by incorrectly expensing these assets in the current year. Furthermore, depreciation on these infrastructure assets were also incorrectly included in the



current year's depreciation expense of R21 961 286. Consequently, operating expenses of R1 535 156 965 disclosed in the statement of financial performance is overstated by R221 565 011.

41. There is an unexplained difference of R29 594 321 (2010: R13 959 022) between the movement of the provision for impairment of receivables disclosed in notes 8 and 9 to the financial statements and the debt impairment expense of R221 725 567 (2010: R208 466 144) included in operating expenses of R1 535 156 965 (2010: R1 315 127 455) disclosed in the statement of financial performance.
42. The municipality could not provide sufficient appropriate audit evidence to substantiate an adjustment of R51 651 711 in the corresponding figure for employee related costs of R342 230 715 disclosed in note 23 to the financial statements. Consequently, I was unable verify the accuracy, occurrence and completeness of this corresponding figure and the corresponding figure for the accumulated surplus of R2 132 535 789 as disclosed in the statement of financial position.

Accumulated surplus

43. The corresponding figure for the accumulated surplus disclosed in the statement of financial position has been restated by R353 176 193 to correct prior year misstatements, however note 36 only disclose detail of adjustments of R302 336 463. The difference of R50 839 730 could not be explained by management. Consequently, I was unable to confirm the completeness, valuation and allocation of the accumulated surplus corresponding figure of R2 132 535 789 disclosed in the statement of financial position.
44. The corresponding figure of R2 132 535 789 for the accumulated surplus disclosed in the statement of financial position does not agree with the accumulated surplus balance of R1 890 181 535 disclosed in the statement of changes in net assets. Management could not provide sufficient appropriate audit evidence or an explanation for the difference of R242 354 789. Consequently, I did not obtain sufficient appropriate audit evidence to verify the valuation, rights and obligations, existence and completeness of the accumulated surplus. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

Cash flow statement

45. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities is required by SA Standards of GRAP, GRAP 2, *Cash Flow Statements*. The calculation of net cash flows from operating activities and cash flows from financing activities did not appropriately account for non-cash items. The municipality's records did not permit the application of alternative audit procedures to determine the extent of the misstatement. Consequently, I did not obtain sufficient appropriate audit evidence to confirm the accuracy of the cash flow statement.

Capital commitments

46. I was unable to obtain sufficient appropriate audit evidence to substantiate capital commitments of R77 796 073 (2010: R53 119 409) included in the balance of R122 182 314 (2010: R143 029 069) disclosed in note 33 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to confirm the valuation of capital commitments.
47. There was no contract management system in place for the identification of authorised capital expenditure (capital commitments). Alternative audit procedures indicate that capital commitments disclosed in note 33 are understated by at least R37 422 137. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of capital commitments of R122 182 314 disclosed in note 33.

Unauthorised expenditure

48. Section 125 of the MFMA requires disclosure of material unauthorised expenditure in the



financial statements. According to the municipality's records, unauthorised expenditure of R154 865 861 (2010: R324 708 853) was incurred during the year as a result of overspending of the approved budget. This unauthorised expenditure was however not disclosed in the notes to the financial statements.

Irregular expenditure

49. Section 125 of the MFMA requires disclosure of material irregular expenditure; however the municipality did not disclose any irregular expenditure for the current year in note 43 to the financial statements. During the audit I found that the municipality made awards of R6 305 771 (2010: R7 961 710) to suppliers where councillors or officials of the municipality held interests, contrary to regulation 44 of the Municipal Supply Chain Management Regulations (SCM) and further irregular expenditure of R57 290 681 incurred as a result of contraventions with the SCM regulations. As a result irregular expenditure disclosed in note 43 to the financial statements is understated by R63 596 452.
50. I was unable to obtain sufficient appropriate audit evidence for awards of R359 747 036 (2010: R105 442 915) made in terms of the municipality's SCM policy. The municipality's records did not permit the application of alternative procedures. Consequently, I did not obtain sufficient appropriate audit evidence to verify that all material irregular expenditure has been disclosed in the notes to the financial statements.

MFMA disclosures

51. Section 125(1)(c) of the MFMA requires the disclosure of the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions and whether any amounts were outstanding at the end of the financial year. The amounts disclosed in note 44 to the financial statements for medical and pension contributions and taxes and levies are incorrect. Medical and pension fund contributions are understated by R7 013 936, taxes and levies paid understated by R6 487 985 and the amount for outstanding audit fees understated by R1 214 394.
52. Section 125(2)(b) of the MFMA requires a summary of all investments of the municipality to be disclosed. The notes to the financial statements did not include such a summary for the municipality's investments of R41 028 518.

Disclaimer of opinion

53. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

54. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

55. As disclosed in notes 36 and 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 30 June 2011 in the financial statements of the entity at, and for the year ended, 30 June 2011.

Additional matters

56. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

57. The supplementary information set out on pages 149 to 159 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

58. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 162 to 220 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Reliability of information

59. The reported performance information was deficient in respect of the following criteria:
- Validity: The reported performance did not occur and does not pertain to the entity.
 - Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the annual performance report

The following audit finding relates to the above criteria:

The content of the integrated development plan is incomplete

60. The integrated development plan did not include key performance indicators and performance targets determined in accordance to its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

Budget

61. The municipality incurred expenditure that was not budgeted for and incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, contrary to section 15 of the MFMA.

Annual financial statements, performance and annual report

62. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of audit opinion. Material corrections were made on note 36 and 37 to the annual financial statements for the disclosure of errors identified in the current year that relate to the prior year.
63. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.
64. The late submission of the annual financial statements to the Auditor-General for auditing was not appropriately addressed by the Mayor and municipal council as per the requirements of section 133(1) of the MFMA.
65. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2009/10 annual report was tabled in the council as required by section 129(1) of the MFMA.

Audit committees

66. The audit committee did not function as required by section 166 of the MFMA.



67. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by the regulation 14 of the Municipal Planning and Performance Management Regulations.

Internal audit

68. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- Internal audit did not report to the audit committee on the implementation of the internal audit plan.
 - Internal audit did not report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
 - Internal audit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation as required.
69. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and regulation 14 of the Municipal Planning and Performance Management Regulations.

Procurement and contract management

70. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
71. Awards were made to providers based on criteria that were not stipulated in the original bid documents as per the requirements of SCM regulation 28(1).
72. Sufficient appropriate audit evidence that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) and 22(2), could not be obtained for audit.
73. The preference point system was not applied in any procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
74. Sufficient appropriate audit evidence that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000) and its regulations, could not be obtained for audit.
75. Awards were made to suppliers that did not score the highest points in the evaluation process as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000).
76. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
77. The municipality's SCM policy does not meet the requirements of the SCM Regulations.
78. Contrary to SCM regulation 44, awards were made to providers who are persons in service of the municipality or whose directors and/or principal shareholders are persons in service of the municipality. Furthermore the providers failed to declare that he/she was in the service of the municipality as required by SCM regulation 13(c).
79. Awards were made to providers who are persons in service of other state institutions or whose directors and/or principal shareholders are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the providers failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).
80. Persons in service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).



81. The accounting officer failed to investigate allegations against an official or role player, of fraud, corruption, favouritism, unfair or irregular practice or failure to comply with the SCM policy as required by SCM regulation 38(1)(b).
82. Sufficient appropriate audit evidence that contracts to the value of R133 476 625 was procured in accordance with legislative requirements and the SCM policy could not be obtained.

Human resource management and compensation

83. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review within the required time period, as required by sections 57(1)(b) and 57(2)(a) of the MSA.

Expenditure management

84. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure disclosed in notes 41, 43 and 42 to the financial statements respectively, as required by section 32(2) of the MFMA.
85. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
86. The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
87. The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which recognises expenditure when it is incurred, accounting for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
88. Money owed by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Asset management

89. The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

Financial misconduct

90. Investigations were not instituted into all instances of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

INTERNAL CONTROL

91. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

92. The leadership's philosophy and operating style is not contributing towards a clean administration. This is evidenced by the inappropriate implementation and monitoring of action plans to address prior year audit findings, the establishment of a culture of honesty, ethical business practices and good governance. Vacancies in key positions, such as the municipal



manager and the chief financial officer were not filled and an effective organisational structure for placing appropriately skilled people is not in place.

Financial and performance management

93. The accounting officer does not exercise oversight over reporting and compliance with laws and regulations and internal control as various supporting documentation could not be submitted during the audit and management failed to respond to critical audit issues. There were insufficient implemented controls to ensure that information in the financial statements and the report on predetermined objectives were reliable. This includes key reconciliations and development of appropriate accounting policies to ensure that all disclosures required by the accounting framework are included.

Governance

94. The council failed to implement good governance principles within the municipality. These include the development and implementation of a risk management policy, fraud prevention plan and an effective internal audit function and audit committee.

Auditor-General.

Rustenburg

12 December 2011



Auditing to build public confidence

